CT Association of Residential Care Homes

Testimony of

Rhonda Boisvert, President

in opposition to

S.B. No. 897 (RAISED) AN ACT CONCERNING FAIR RENT FOR RESIDENTIAL CARE HOMES.

Senator Moore, Representative Abercrombie and members of the Committee, my name is Rhonda Boisvert and I am the President of the Connecticut Association of Residential Care Homes. I am here today to **testify in strong opposition to SB 897- AN ACT CONCERNING FAIR RENT FOR RESIDENTIAL CARE HOMES**.

The Ct Association of Residential Care Homes (CARCH) is the largest organization for residential care homes in the state representing the majority of the 101 residential care homes in the state. Our Association is strongly opposed to SB 897 as it would have a negative financial impact on a majority of the 101 residential care homes ("RCHs") in Connecticut. **This bill is not technical in nature and instead would end up cutting the rates of most residential care homes. A typical 25-bed facility could expect to lose up to $21,000 in state payments as a result of this bill.**

The average RCH payment rate approximates $95.00 per day and the services provided to our elderly and disabled residents reduce the need for hospital, psychiatric facility and nursing home care.

We fundamentally disagree with the removal of $3.10 per day per resident as proposed in SB 897. CARCH strongly believes that the rate system should include a minimum base property allowance to compensate operators for facility use as a home for elderly and disabled individuals. Having a property base enhances the viability of homes and increases the likelihood that they can meet unforeseen expense increases as well as fund or finance capital improvements when needed.

The proposal lacks merit when considering some often over-looked deficiencies of the current RCH rate-setting formula, including the property (land, building and fixed asset) reimbursement component. Although SB 897 merely replaces one sentence of RCH rate statutes, it modifies one of the more complex areas of state payment policy and does not lend itself to a short explanation or cursory analysis. This testimony outlines our concerns with this proposal and CARCH would be happy to meet with committee members, legislative staff and representatives from the Department of Social Services to examine the policy rationale and implications of SB 897 in more detail and RCH rate-setting in general. CARCH has not seen Department of Social Services ("DSS") budget impact estimates associated with this bill but we would expect this would lead to significant cuts to RCH payments.

The current rate-setting method applicable to RCHs provides a base property allowance amount of $3.10 per resident per day. The minimum property use allowance of $3.10 equates to $94.29 per month per resident- far below market rates for apartment or room rentals in Connecticut. The minimum was set for 1995 fixed assets and has not been updated to account for real estate value increases since it was established.

RCHs generally qualify for the $3.10 minimum when the original building cost is fully depreciated (usually after 30 years). It is our understanding that the majority of RCHs presently qualify for the $3.10 minimum having been opened in the 1970's and early 1980's. Importantly, under the current method, when a RCH makes a capital improvement such as roof or window replacement or heating/air conditioning upgrade, an adjustment to the facility's rate in a subsequent year can be anticipated (unless rates are frozen or capped) that represents the "fair rent" allowance associated with the project cost. The fair rent allowance provides rate adjustment over the useful life of the asset and is unrelated to the facility's actual interest expenses or the debt terms associated with the project, if any.

For example, a $25,000 building improvement with a fifteen year useful life made in 2014 by a 20-bed RCH would result in an annual fair rent allowance of approximately $1,991 – adding $0.29 per day to the facility's rate for the July 1, 2015 through June 30, 2016 (SFY 2016) rate period. **If SB 897 is adopted, most RCHs would not receive a SFY 2016 rate adjustment related to 2014 property improvements since the $3.10 minimum base will be eliminated. More importantly, most RCHs would face a reduction to the property component of their RCH rate for SFY 2016 due to the proposed SB 897 change, regardless of recent capital improvements.**

When evaluating SB 897, important to consider that RCHs have not been issued cost-based rates every year. **In fact, rates were frozen for three years between July 1, 2009 and June 30, 2012 and have frequently been subject to annual rate increase limits. Therefore, state payment rates have not provided RCHs with full fair rent for fixed assets (or other allowable costs).**

Rates issued for the current rate period (SFY 2015) and SFY 2014 were primarily cost-based; however, the weighted average rate increase only approximated 2.1% in both years, including special rate adjustments related to receivership facility sales and certificate of need ("CON") renovations. These low rate increases are due in part to overly stringent year-to-year inflation increase limits applied to allowable costs and fair rent reductions associated with rate of return ("ROR") percentage decreases. **Adoption of SB 897 would compound the negative impact of the cost year inflation limit and ROR deficiencies in the current rate formula.**

Most residential care homes continue to struggle financially. Cost year 2013 information for 65 single-licensed RCH facilities (non-nursing facility associated), which comprise the bulk of our membership, indicates that 34 or 52% reported losses and that 17 of the 31 facilities that reported profits had gains of $20,000 or less (generally representing 1% to 2% of revenues). While fuel oil costs have decreased recently, the associated savings to RCHs are generally more than offset by expenditure increases for utilities, insurance, property taxes, food and repairs/maintenance.

CARCH asks that SB 897 be rejected based on consideration of the full rate system, the cost-effectiveness of RCH services and the financial condition of facilities. Thank you for your consideration.

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